UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF NEW YORK

PRIDDIS MUSIC, INC.,

Plaintiff,

- against -

TRANS WORLD ENTERTAINMENT CORPORATION,

Defendant.

COMPLAINT AND DEMAND FOR TRIAL BY JURY

The plaintiff Priddis Music, Inc., by and through its attorneys McNamee, Lochner, Titus & Williams, P.C., for its Complaint and Demand for Trial by Jury herein, states as follows:

I. PARTIES

1. Plaintiff Priddis Music, Inc. ("Priddis") is a corporation organized and existing under the laws of the State of Nevada, with its principal place of business located in Lindon, Utah.

2. Priddis manufactures and markets karaoke music products.

3. Defendant Trans World Entertainment Corporation ("TWEC") is a corporation organized and existing under the laws of the State of New York, with its principal place of business located at 38 Corporate Circle, Albany, New York.

4. TWEC operates retail music and entertainment stores throughout the United States, doing business during the relevant time period under various trade names, including "FYE- For Your Entertainment," "Coconuts," "Camelot Music," "Spec's Music," and "Record Town."

Dockets.Justia.com

II. JURISDICTION AND VENUE

5. Jurisdiction arises in this case under 28 U.S.C. § 1332 because the matter in controversy exceeds $75,000, exclusive of interest and costs, and is between citizens of different states.

6. Venue is proper in this Court under 28 U.S.C. § 1391(c) because TWEC's principal place of business is located, and TWEC is subject to personal jurisdiction, in this judicial district.

III. NATURE OF THE ACTION

7. In this action, Priddis seeks money damages against TWEC for, *inter alia*, fraud, breach of contract, breach of implied covenant of good faith and fair dealing, failure to pay for goods had and received, conversion, unjust enrichment, and promissory estoppel.

IV. GENERAL ALLEGATIONS

8. In 1999, TWEC contacted Priddis with an offer to give Priddis exclusive rights to its karaoke music racks. Prior to this offer, Priddis had not done any business with TWEC.

9. Prior to Priddis, TWEC carried karaoke products manufactured by Sound Choice, a competitor of Priddis. Upon information and belief, TWEC and Sound Choice had an irreconcilable dispute because TWEC was making excessive returns of product and was not paying for the product it ordered in a timely manner. Priddis is informed and believes that the dispute reached a point where Sound Choice refused to ship orders and refused to accept returns from TWEC.

10. TWEC offered Priddis the status as TWEC's exclusive karaoke product supplier to replace Sound Choice, if Priddis agreed to "buy out" TWEC's inventory originally purchased from Sound Choice.

11. On or about May 25, 1999, Priddis and TWEC entered into a written agreement regarding Priddis' buy out of Sound Choice product from TWEC (hereinafter referred to as the "Buy Out Agreement")

12. The terms of the Buy Out Agreement between TWEC and Priddis required Priddis to accept the Sound Choice inventory as a return and to issue TWEC credit for the inventory at $7.00 per compact disc ("CD") and $4.65 per cassette. Priddis was not required to issue any credit for product returned in an unusable condition or non-karaoke product. In addition, TWEC agreed to pay the freight on the return shipments and any "freight collect return" shipments were to be refused by Priddis.

13. Pursuant to the Buy Out Agreement, Priddis accepted returns from 230 stores, which amounted to over 50,500 CDs and cassettes. Pursuant to the terms of the Buy Out Agreement, Priddis was only required to issue TWEC a credit in the amount of $281,026.00 for these returns. However, TWEC took credit in the amount of $336,630.00.

14. When Priddis disputed the credit taken by TWEC for the returns under the Buy Out Agreement, TWEC insisted that Priddis reconcile its accounts with TWEC's accounts before it would make any payments to Priddis for subsequent product that it had already ordered and received from Priddis.

15. Priddis is a small company that relies heavily on its cash flow to remain in business. TWEC's threat to not pay for product that it had ordered and received until

Priddis reconciled its accounts with TWEC's accounts placed Priddis in severe economic duress. Because Priddis needed to get paid to stay in business, it had no choice but to write off the $55,604 difference from TWEC's account. However, it is Priddis' position that TWEC still owes Priddis this amount under the terms of the Buy Out Agreement.

16. Priddis agreed to replace the Sound Choice inventory with Priddis' own inventory, and to supply TWEC stores with new karaoke display racks full of new product, all at no cost to TWEC.

17. The initial displays racks that Priddis provided to TWEC cost Priddis over $40,000, plus freight. These racks held both CDs and cassettes.

18. Effective October 1, 1999, Priddis and TWEC entered into a written Point of Sale Display Agreement, which set forth the parties' rights and obligations regarding the display racks supplied by Priddis (hereinafter referred to as the "Display Agreement").

19. Pursuant to the Display Agreement, Priddis agreed to make display racks available to TWEC at no charge, if TWEC purchased enough karaoke product to fill the displays. If, after one year, TWEC had fulfilled its obligation to purchase enough product to fill the displays, then TWEC would own title to the displays. However, if TWEC defaulted on its responsibility to purchase enough product to fill the displays and discontinued purchasing or selling Priddis product, TWEC would be required to return all displays at no cost to Priddis.

20. The Display Agreement further provides that the displays shall be used exclusively for the promotion of Priddis' product and that no product from competing companies shall be shown on, or in connection with, Priddis' displays.

21. A little over a year later, in approximately mid-2000, TWEC threw out the racks that Priddis supplied as part of the "buy out" and demanded that Priddis replace them, at no charge to TWEC, with new display racks that held only CDs. The new displays cost Priddis approximately $55,000.00. Priddis' provision of these new displays was subject to the Display Agreement between the parties.

22. As discussed in greater detail below, contrary to the terms of the Display Agreement, TWEC never ordered **and paid for** enough product to fill the display racks. Thus, TWEC never became the owner of any of the display racks and must return the racks or pay Priddis for the value of such racks.

23. In addition, upon information and belief, TWEC frequently displayed non-Priddis product and product from competing companies on Priddis' display racks, contrary to the terms of the Display Agreement. Such conduct was a breach of the Display Agreement and entitles Priddis to the return of the racks or payment of their value.

24. The cost of the displays, the replacement product and the return credit taken by TWEC amounted to over $450,000, which was a substantial investment for Priddis to get its product into TWEC's stores.

25. As consideration to enter into the Buy Out Agreement, TWEC agreed to order Priddis product on an on-going basis. TWEC's promise of future orders was Priddis' motivation to enter into the Buy Out Agreement.

26. On or about June 7, 1999, TWEC and Priddis signed a "Vendor Approval Request Form" (hereinafter, "Vendor Agreement"), which set forth the initial terms under

which TWEC and Priddis agreed to operate. Shortly thereafter, TWEC began to order and Priddis began to ship product pursuant to such agreement.

27. During 1999, Priddis' shipments were to meet TWEC's initial stocking requirements under the Buy Out Agreement, which were at no charge to TWEC. Consequently, Priddis' books reflect relatively small payments from TWEC during the 1999 calendar year.

28. By late 1999, Priddis fulfilled its requirements under the Buy Out Agreement and began to send orders to TWEC that required payments from TWEC pursuant to the Vendor Agreement.

29. In mid 2000, soon after TWEC began to order a substantial amount of product from Priddis, Priddis began to encounter problems with TWEC's return, credit and payment practices.

30. Beginning in approximately mid 2000 and continuing through 2003, TWEC used several schemes described below to extend its payment terms, withhold payments from Priddis for product that it ordered and received, and manipulate its books to make it appear as though Priddis owed it money rather than vice versa.

31. Upon information and belief, TWEC pre-determined what it wanted to pay Priddis in any given month and then utilized these schemes to deduct anything in excess of that amount.

32. Upon information and belief, these schemes were employed, both individually and in combination, by TWEC as part of its ongoing business practices, in a willful and knowing effort to, and with intent to, defraud its suppliers such as Priddis of money due and owing to them for product that was ordered and received by TWEC.

33. TWEC is a publicly traded company on the NASDAQ National Market.

34. Upon information and belief, TWEC utilized the below schemes to manipulate its accounts payable on its books and in its public filings in order to present a better financial picture to investors, potential investors and creditors.

35. As a result of these schemes, TWEC paid Priddis for less than half of what it ordered and received during from 1999 through the termination of their relationship in February, 2004.

36. From 1999 through 2004, TWEC ordered and received a total of $6,192,199 worth of product from Priddis. TWEC paid a total of $3,088,350 in cash for these orders.

37. TWEC took several credit adjustments that were legitimately approved by Priddis. However, after these adjustments, TWEC still owes Priddis approximately $3,095,000 million, which is comprised of: (1) approximately $830,884 in cash due; (2) $1,592,920 in returns that Priddis disallowed as excessive and unreasonable, (3) $55,000 for the excessive credit taken by TWEC under the Buy Out Agreement; (4) $95,000 in displays sent to TWEC; (5) approximately $545,000 in advertising fees that TWEC wrongfully charged to Priddis through the use of economic duress; and (6) approximately $7,000 for a distribution center fee that was wrongfully charged to Priddis.

A. TWEC's Fraudulent Return Schemes

38. TWEC frequently returned product to Priddis on a monthly basis.

39. TWEC often returned more than half of what it had ordered. The amount of returns made by TWEC was far in excess of what is standard in the retail music industry.

40. Under normal business practices in the retail music industry, if a CD or cassette does not sell well, a retailer will return the product and not reorder it again.

41. TWEC, however, frequently reordered items that it had recently returned within the last one or two months.

42. Upon information and belief, TWEC's practice of returning and then reordering the same product was a scheme intentionally employed by TWEC to artificially extend its payment terms and perpetually delay making timely payments to its suppliers, such as Priddis, for product it ordered and received.

43. Upon information and belief, TWEC has employed these same payment delaying tactics with other product suppliers, including Sound Choice.

44. Under the terms of the Vendor Agreement, TWEC had sixty (60) days to pay for product it received from Priddis. This payment term was never modified by the parties.

45. Therefore, for example, under normal circumstances, payment for product that TWEC ordered in Month #1 would be due in Month #3. Rather than pay in full for the product it ordered in Month #1, however, TWEC frequently returned in Months #2 and #3 much of the same product it had ordered in Month #1, thereby effectively wiping out or significantly reducing any payment due in Month #3. TWEC then placed new orders in Months #2 and #3 for the same product it had returned, payment for which would be extended to Months #4 and #5.

46. By repeating this cycle of returns and reorders over and over again, TWEC was able to maintain a large inventory of product without payment obligations becoming due on a significant portion of it.

47. TWEC maintained a “Basics Program,” which indicated the level of product inventory that it should keep on hand. Priddis requested regular sales reports from TWEC, which detailed the “basic level” for each product, the current TWEC inventory level of that item, and the current sales volume for that item. These reports show that TWEC overstocked many items well beyond the “basic level” it determined itself to keep on hand. The total overage could be in the thousands of pieces.

48. Upon information and belief, TWEC overstocked product so that it was able to keep parts of its inventory rotating, with extended payment terms, while selling other parts of its inventory in furtherance of its fraudulent return scheme.

49. TWEC frequently withheld payments due to Priddis on past orders until Priddis shipped current orders. This effectively kept TWEC overstocked so it could continue its fraudulent return scheme.

50. Each of TWEC’s returns of product to Priddis during 2001, 2002 and 2003, and its subsequent purchase orders reordering product that it had recently returned, was in furtherance of its fraudulent return scheme.

51. TWEC also regularly made very large deductions from payments to Priddis for “anticipated returns.” However, TWEC never made the actual returns of product for which it took a deduction. Although TWEC often subsequently credited the amount of the anticipated return back into its next payment one or two months later, it would often turn around and make another large deduction from such payment for another anticipated return. In this manner, TWEC was able to effectively extended its terms.

52. In addition, on at least one occasion, TWEC failed and refused to pay Priddis back for these anticipated returns that were never made.

53. TWEC's practice of taking deductions for possible future returns before making an actual return was highly abnormal in the retail music industry

54. Upon information and belief, TWEC's practice of taking large deductions out of its payments to Priddis for anticipated returns was a deliberate tactic employed by TWEC to fraudulently extend its payment terms and withhold payments from Priddis for product that it had ordered and received.

55. TWEC deducted these fraudulent "anticipated returns" from the payments it sent to Priddis on or about September 27, 2001, January 31, 2002, March 14, 2002, April 30, 2002, May 29, 2002, June 27, 2002, July 8, 2002, August 29, 2002, September 24, 2002, February 25, 2004 and March 2, 2004. These payments were accompanied by a "Check Overflow Remittance Advice," which reflect the improper deductions for anticipated returns. Attached hereto as Exhibit A is a spreadsheet listing the fraudulent deductions from payments that TWEC took for "anticipated returns."

B. TWEC'S Fraudulent Discount Schemes

56. Under the terms of the Vendor Agreement, one of TWEC's valid payment terms included a two percent (2%) discount for paying an invoice on time.

57. TWEC inappropriately considered returns of product to Priddis as on-time payments, which it claimed qualified for the 2% discount. However, this was not agreed to by the parties under the terms of the Vendor Agreement.

58. Nonetheless, TWEC regularly took a 2% discount on all of the product that it returned to Priddis.

59. The effect of TWEC's practice of returning product and taking a 2% discount was that, in addition to not having to pay for the product, TWEC was able to create a credit on its account with Priddis. TWEC would then claim that Priddis owed it money, rather than vice versa, and use that as justification for further withholding payments to Priddis.

60. For instance, on or about August 11, 2003, Russell Kellar, a Buyer for TWEC and Priddis' main point of contact with TWEC during much of their relationship, withheld a large payment to Priddis on the basis that TWEC's records showed Priddis owing TWEC money because of returns made by TWEC.

61. Upon information and belief, TWEC's practice of taking a 2% discount on returns, for which it never paid in the first place, was a willful and deliberate effort to gain leverage against and to defraud its suppliers, including Priddis, out of money due and owing to them.

62. TWEC took the 2% discount out of its payments to Priddis, which were sent along with a document called "Check Overflow Remittance Advice" detailing the amounts due to Priddis and credits taken by TWEC.

63. TWEC also took a 2% on-time payment discount for the "anticipated returns" that were not actually made. Although TWEC usually added the amount of the anticipated return back into its payment one or two months later, it still took the 2% on time discount and used the deductions for "anticipated returns" as justification for withholding further payments to Priddis.

64. For example, on or about September 27, 2001, TWEC sent Priddis a "Check Overflow Remittance Advice" claiming a deduction of approximately $86,000

for possible returns that TWEC might send in the future. The $86,000 was a late payment and did not qualify for the 2% discount because Priddis did not receive a shipment or even a return request. Nonetheless, TWEC still took the 2% discount on the $86,000 anticipated return.

65. TWEC refused to remove the 2% discount on the $86,000 deduction even though it never made the anticipated returns for which it took the deduction.

66. On or about October 16, 2001, Russell Kellar sent a letter to Priddis promising to release TWEC's hold back of approximately $86,000 upon receipt of new product from Priddis.

67. In reliance on this promise, Priddis shipped the new product to TWEC.

68. However, TWEC failed to make the promised $86,000 payment to Priddis until January 31, 2002.

69. Priddis complained about such tactics to higher management at TWEC and was told that TWEC would put new procedures into place so that it would not be taking a discount on returns and anticipated returns. However, TWEC never followed through on its promises and continued to take such discounts.

70. TWEC also insisted on taking the 2% on time payment discount whether or not it paid on time. Thus, on several occasions, TWEC took the discount on invoices that were paid up to 90 days and longer even though payment terms under the Vendor Agreement limited the discount to timely payments within 60 days.

71. Finally, TWEC also frequently took credit and a 2% discount for more product than it actually returned and for non-Priddis product that it returned.

C. TWEC'S Fraudulent Proof of Delivery Scheme

72. Initially, TWEC placed orders through individual stores. Priddis received hundreds of individual orders at any given time, each from a different store. Priddis then was required to pack, ship and invoice each separate order to each individual store. After sending the orders to the individual store, Priddis then sent all of the invoices to TWEC's central office in Albany, New York for payment. The shear volume of individual invoices made initial detection of TWEC's payment delaying tactics quite difficult.

73. Upon information and belief, TWEC stores use a computerized system to record product that they receive.

74. Although Priddis was not informed by an individual store that it had not received a product shipment, TWEC routinely demanded that Priddis present proof of delivery on a random and often lengthy list of invoices before it would pay for the shipments.

75. Even though Priddis supplied TWEC with the required proof of delivery documents, on several occasions TWEC ignored Priddis' documentation and deducted from its total payments some or all of the amounts due from invoices in which delivery was disputed.

76. In addition, on several occasions, even after receiving proof of delivery and paying for the product, TWEC later sent Priddis a chargeback memorandum taking a credit on its account claiming that Priddis had failed to provide proof of delivery. Sometimes these orders for which TWEC claimed Priddis had failed to provide a proof of delivery were almost a year old.

77. TWEC occasionally added back the amount it had deducted or the credit it had taken into a future check. However, under these circumstances, TWEC was still able to obtain longer payment terms for product that it had ordered and received.

78. Upon information and belief, TWEC's practice of requiring proof of delivery on shipments that it had received was a deliberate tactic employed by TWEC to fraudulently extend its payment terms and withhold payments from Priddis.

79. Each and every "Check Overflow Remittance Advice" deducting amounts from payments to Priddis for failure to provide proof of delivery, and each and every chargeback memorandum taking credit for shipments on the basis that Priddis did not provide proof of delivery, that TWEC sent to Priddis during 2001, 2002 and 2003 was in furtherance of this fraudulent scheme.

D. TWEC's Fraudulent Misrepresentations

80. Once TWEC established a pattern of making late payments on orders that it had already received, Priddis began to withhold shipments on new orders until TWEC brought its payments up to date.

81. However, to obtain further shipments of product from Priddis, TWEC often made promises, both orally and in writing, that it would make payments to Priddis.

82. Upon information and belief, TWEC had no present intention to make the payments, in whole or in part, to Priddis at the time these representations were made.

83. In reliance on such promises, Priddis continued to ship product to TWEC.

84. However, TWEC often either did not make the payment when promised or sent a payment that was severely reduced from the sum TWEC originally promised.

85. For instance, on or about October 16, 2001, Russell Kellar sent a letter to Priddis via facsimile promising to release $86,000 that TWEC had held back from Priddis upon receipt of new product from Priddis.

86. In reliance on such promise, Priddis shipped TWEC new product.

87. TWEC, however, failed and refused to make the $86,000 payment until January 31, 2002.

88. On or about January 28, 2003, Russell Kellar sent an email to Priddis promising to release a check to Priddis in the amount of $360,947 the following week.

89. In reliance on such promise, Priddis continued to ship product to TWEC.

90. On or about February 4, 2003, Priddis received a check from TWEC in the amount of $220,143.45, which was over $140,000 less than was promised by Mr. Kellar.

E. TWEC's Improper Imposition of a "Rack Placement" Fee

91. The Vendor Agreement provided that TWEC would not charge Priddis a fee for advertising unless Priddis approved an advertising deduction on an invoice on a per advertisement basis.

92. On or about November 29, 2000, Joanne Maggio, a Boutique Buyer for TWEC, emailed Priddis a letter informing Priddis that TWEC would be taking a credit of $33,000 to cover a "rack placement fee" for 2000. The "rack placement fee" is a disguised advertising fee. Ms. Maggio further notified Priddis in that letter that, in 2001, TWEC would charge Priddis 10% of yearly purchases for the same rack placement fee. Ms. Maggio stated that this fee was "strictly for placement of [Priddis'] racks in our stores."

93. Priddis was surprised and dismayed at this demand for a "rack placement fee" because Priddis had never heard of such a fee before, it was not provided for in the parties' Vendor Agreement, and Priddis had not charged TWEC in the first place for the cost of the display racks for which TWEC was now insisting on a fee. Priddis immediately emailed Ms. Maggio to convey these concerns.

94. In response to Priddis' concerns, Ms. Maggio sent Priddis an email stating that "[a]ll other vendors with racks on the floor have to ok this or I was told to look for other vendors. I have to be so blunt – but this is what they want."

95. Priddis, which is a small company, already had invested hundreds of thousands of dollars into its relationship with TWEC by virtue of its provision of the displays, the replacement product and the return credit for Sound Choice product taken by TWEC, all at no charge to TWEC and as credit against sums due, or which became due, to Priddis. If Priddis were to lose TWEC's business after making such a substantial investment, it would be faced with serious economic difficulty.

96. Presented with the threat to either agree to the new unjustified charges or lose its substantial investment in its relationship with TWEC, Priddis had no choice but to agree to the rack placement fee. Thus, Priddis' agreement to the rack placement fee was procured by economic duress and Priddis is not bound by such agreement.

97. TWEC then unilaterally raised the rack placement fee from 10% to 15% of yearly purchases for 2002 and 2003. Again, Priddis had no choice but to agree to the increased fee based upon economic duress.

98. TWEC then improperly calculated the 10% fee, and then the 15% fee, on the gross amount of its orders without subtracting out the returns and other credits. Thus,

not only did TWEC improperly charge Priddis a rack placement fee in the first place, TWEC then overcharged Priddis by $107,157 for such fee.

F. TWEC's Improper Refusal to Pay for Express Shipping Costs

99. TWEC accepted special orders from its customers and then asked Priddis to ship those special orders directly to the individual store where the order was placed. When the customer asked for the order to be shipped via express mail, the local TWEC store collected an extra payment from its customer for the express shipping cost.

100. TWEC agreed to reimburse Priddis for express shipping on all special orders ($15.00 for Overnight delivery and $9.00 for 2nd Day Air).

101. However, when Priddis billed TWEC for its express shipping costs, TWEC often refused to pay, even though TWEC had obtained payment from the customer for such costs.

102. Priddis then instituted a policy that it would only ship express to a store if it obtained specific clearance from the TWEC corporate office for each order.

103. Even when TWEC gave Priddis permission in writing to ship special orders express to a store, TWEC still refused to pay for express shipping costs.

104. TWEC owes Priddis $1,465.42 for un-reimbursed express shipping costs.

G. Priddis' Attempts to Mitigate

105. In response to problems Priddis was having with TWEC's return, credit and payment practices detailed above, Priddis repeatedly informed TWEC in several conversations and emails that it would only accept returns under the following conditions.

106. First, all returns had to be authorized by Priddis. Only specified titles included on a list prepared by Priddis could be returned. Damaged, opened product and non-Priddis product would not be accepted for credit. Further, TWEC stores were required to include certain paperwork with each return. This paperwork was required to include a return authorization ("RA") number issued by Priddis for each such return. Priddis set a deadline by which it was required to receive the returns. Any late returns, returns of non-approved product, and returns without the required paperwork would not be given credit.

107. Finally, Priddis agreed to accept TWEC's returns upon payment of a restocking fee, which started at 10% and then was raised to 12%, on all items returned. This fee was necessary to off-set the 2% discount and the 10% rack fee taken by TWEC. Without such fee, TWEC would pay to Priddis only 88% of the invoiced amount while getting credit for 100% of the original invoiced amount.

108. TWEC agreed to these conditions in various conversations and emails. Further, after receipt of these return conditions, TWEC continued to order from Priddis and Priddis continued to ship such orders.

109. However, TWEC stores often returned items that were not approved, without the required paperwork and/or after the deadline and still took credit for such returns. TWEC also returned, and took credit for, product that did not belong to Priddis. Further, TWEC often used RA numbers that were not issued by Priddis, old RA numbers that were already used and closed in Priddis' system and RA numbers that exceeded the estimated return quantity.

110. TWEC also crossed out the restocking fees on the chargeback memorandums it sent to Priddis, thereby refusing to pay the fees to which it had agreed.

111. On or about November 30, 2001, Russell Kellar promised in writing to send Priddis a check for some of the 10% restocking fees in the amount of $11,000. However, Priddis never received a check. Mr. Kellar then informed Priddis that he would not send the payment because TWEC's books showed Priddis owing TWEC money based on recent returns.

112. Because TWEC insisted on taking credit for returns that did not meet Priddis' conditions, Priddis informed TWEC that it would accept these returns only upon the condition that TWEC agree to pay Priddis a 25% restocking fee for such returns. On July 13, 2000, TWEC agreed in writing to such fee. However, TWEC thereafter failed and refused to pay such fee.

113. In a final attempt to restrict TWEC's fraudulent return and credit practices, Priddis started to review each order placed by TWEC against a list of items that TWEC had recently returned. If any items ordered had been recently returned, Priddis would remove the items from the order or reduce the number of items ordered.

114. TWEC questioned Priddis' attempts to control its orders claiming that Priddis was refusing to ship items that it no longer had in stock. Priddis responded by questioning why TWEC had recently returned these same items if it was not overstocked on them. TWEC never provided an explanation to Priddis.

115. TWEC demanded that Priddis ship complete orders or be subject to a 20% non-compliance penalty. Priddis never agreed to such penalty and refused to sign an agreement to that effect presented by TWEC.

116. Priddis then terminated its relationship with TWEC in or about February, 2004, declining to make further shipments, despite receiving purchase orders from TWEC up to and including February 27, 2004.

117. In 2004, Priddis determined that it must conduct extensive audits of its books and records to determine the amount and nature of its losses and damages.

118. From analysis after audit, Priddis believes and therefore alleges that TWEC's conduct is not only a breach of contract and violation of a duty of good faith and fair dealing, but is also willful and malicious, fraudulent and a conversion of Priddis' property.

119. An audit of Priddis' books and records reflects that Priddis produced and shipped over $6.19 million worth of product to TWEC. After all of the discounts and credits it took, TWEC paid for less than half of this product. Although a small portion of those discounts and credits were legitimate, the vast majority, approximately $3.1 million, is still due and owing to Priddis. Thus, Priddis has incurred substantial losses as a result of TWEC's fraudulent return, credit and payment practices and breaches of contract.

120. Demand has been made by Priddis for the above amount and nothing has been received.

AS AND FOR A FIRST CAUSE OF ACTION
(Fraud)

121. Priddis repeats and realleges each and every allegation set forth in paragraphs "1" through "120" as though fully set forth herein.

122. TWEC employed a number of artful and deceptive schemes, such as the fraudulent return schemes and the fraudulent discount schemes detailed above, to obtain

products from Priddis with the intent not to pay for them and to conceal such intention from Priddis.

123. TWEC instituted these schemes as part of its general business practices as part of a preconceived design to withhold payment from its suppliers for products that it had ordered and received.

124. TWEC entered into relationships with suppliers such as Priddis with the intention to use these schemes to withhold payments from such suppliers.

125. TWEC also used these schemes to conceal from its suppliers such as Priddis its intention not to pay for products that it had ordered and received so that it could continue to order and receive more products for which it did not pay.

126. TWEC made numerous false representations to Priddis regarding its intention to pay for the products, as detailed above, with the intent to deceive Priddis and to induce Priddis to enter into a relationship with TWEC and continue to send products to TWEC.

127. At the time it implemented these schemes and made these false representations, TWEC had no present intention of paying Priddis for all of the products it ordered and received.

128. Priddis justifiably relied on TWEC's false representations by entering into an agreement with TWEC to supply karaoke music products to TWEC and by accepting new purchase orders from TWEC and continuing to send TWEC new products even after TWEC failed to pay for the products it already ordered and received.

129. Priddis has been damaged by TWEC's fraudulent schemes and false representations.

130. TWEC's fraudulent conduct was willful and wanton, evinced a high degree of moral culpability and was done with malicious and reckless disregard of the rights of its suppliers such as Priddis, thus entitling Priddis to exemplary or punitive damages.

AS AND FOR A SECOND CAUSE OF ACTION
(Breach of Contract)

131. Priddis repeats and realleges each and every allegation set forth in paragraphs "1" through "130" as though fully set forth herein.

132. Priddis and TWEC entered into several contracts, including the Buy Out Agreement, Display Agreement and Vendor Agreement.

133. The Buy Out Agreement, Display Agreement and Vendor Agreement were and are valid and enforceable contracts, and all the conditions precedent to the obligations of the parties to those contracts have been fully satisfied by the parties.

134. Priddis has performed all of its obligations under such agreements.

135. TWEC has taken actions in breach of express promises contained in the Buy Out Agreement, Display Agreement and Vendor Agreement.

136. TWEC failed to perform its obligations under these agreements by, *inter alia*, failing to pay for product that it ordered and received, taking credit for more product than it returned, making excessive returns of product, reordering product that it had recently returned, taking credit for anticipated returns, taking credit for returns of non-Priddis product, taking a discount on returns, taking a discount on returns of non-Priddis product, taking a discount on untimely payments, taking a discount on anticipated returns, taking a discount on more product than it returned, requiring proof of delivery on shipments that it received, deducting invoices from its payments for failure of Priddis to

provide adequate proof of delivery, unilaterally imposing a "rack placement" fee as a disguised advertising fee, unilaterally imposing a distribution center fee, failing to pay for express shipping costs, failing to pay Priddis' restocking fees, failing to use Priddis as its exclusive karaoke supplier, displaying non-Priddis product in the displays supplied by Priddis, and failing to return the display racks provided by Priddis.

137. TWEC's breaches of the Buy Out Agreement, Display Agreement and Vendor Agreement were intentional, involving willful conduct and complete disregard for Priddis' rights, and without legal justification.

138. As a proximate result of TWEC's breaches of these agreements, Priddis has suffered and will continue to suffer direct harm and consequential damages.

AS AND FOR A THIRD CAUSE OF ACTION
(Breach of Implied Covenant of Good Faith and Fair Dealing)

139. Priddis repeats and realleges each and every allegation set forth in paragraphs "1" through "138" as though fully set forth herein.

140. The agreements entered into between Priddis and TWEC contained implied covenants of good faith and fair dealing.

141. TWEC has taken actions in breach of the implied covenants of good faith and fair dealing in the Buy Out Agreement, Display Agreement and Vendor Agreement.

142. Through its breaches of its duty of good faith and fair dealing, TWEC sought to withhold the benefits of these agreements from Priddis.

143. TWEC's breaches of the implied covenants of good faith and fair dealing in the Buy Out Agreement, Display Agreement and Vendor Agreement were intentional, involving willful conduct and complete disregard for Priddis' rights, and without legal justification.

144. As a proximate result of TWEC's breaches of these agreements, Priddis has suffered and will continue to suffer direct harm and consequential damages.

AS AND FOR A FOURTH CAUSE OF ACTION
(Price of Goods Sold and Delivered Pursuant to U.C.C. § 2-709)

145. Priddis repeats and realleges each and every allegation set forth in paragraphs "1" through "144" as though fully set forth herein.

146. Priddis and TWEC are merchants generally engaged in the business of selling, buying and trading goods of the type that are the subject of this action.

147. Between 1999 and February 2004, Priddis sold and delivered to TWEC certain goods, described herein, at the agreed price and reasonable value of approximately $6,192,199.

148. TWEC accepted these goods and/or did not properly reject the goods and, therefore, accepted them.

149. TWEC is entitled to credit against the price in the amount of approximately $3,152,000 for cash paid on account and valid credits.

150. There is a balance due from TWEC to Priddis of approximately $3,040,000, no part of which has been paid, although demanded.

AS AND FOR A FIFTH CAUSE OF ACTION
(Unjust Enrichment)

151. Priddis repeats and realleges each and every allegation set forth in paragraphs "1" through "150" as though fully set forth herein.

152. TWEC received karaoke music products and display racks provided by Priddis.

153. TWEC benefited from receipt of such products from Priddis.

154. TWEC realized or appreciated that this benefit was conferred upon it.

155. TWEC accepted this benefit under circumstances in which it would be inequitable and a violation of principles of equity and good conscience for it to be permitted to retain such benefit without paying for its value.

AS AND FOR A SIXTH CAUSE OF ACTION
(Conversion)

156. Priddis repeats and realleges each and every allegation set forth in paragraphs "1" through "155" as though fully set forth herein.

157. TWEC obtained property owned by Priddis under false representations regarding its intent to pay for such property.

158. TWEC took and retained such property without paying for it in such a way as to, and with intent to, deprive Priddis permanently of its use and benefit.

159. TWEC's retention of such property is inconsistent with Priddis' ownership and use of such property.

160. TWEC's unlawful retention of Priddis' property has caused Priddis to sustain damages in an amount not less than the value of such property.

PRAYER FOR RELIEF

WHEREFORE, Priddis requests that the Court enter an Order awarding Priddis:

(1) damages, in an amount to be proven at trial, but not less than $3,125,000 million, for TWEC's conduct as described above;

(2) exemplary damages in an amount to be proven at trial;

(3) reasonable attorneys' fees and costs in this action as permitted by law;

(4) prejudgment, post judgment and other interest as permitted by law; and

(5) such other and further relief as the Court deems appropriate.

JURY DEMAND

Priddis hereby demands a trial to a jury on all claims so triable.

DATED: Albany, New York
April 20, 2005

McNAMEE, LOCHNER, TITUS & WILLIAMS, P.C.

By: /S/____

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